

**REPORT OF THE AUDIT OF THE
PULASKI COUNTY
CLERK**

**For The Year Ended
December 31, 2007**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov

105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067.

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
PULASKI COUNTY CLERK

For The Year Ended
December 31, 2007

The Auditor of Public Accounts has completed the Pulaski County Clerk's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$197,193 from the prior year, resulting in excess fees of \$892,530 as of December 31, 2007. Revenues increased by \$1,029,062 from the prior year and expenditures increased by \$831,869.

Report Comments:

- The County Clerk's Office Lacks Adequate Segregation Of Duties
- The County Clerk's Office Lacks Adequate Physical Controls Over Cash Receipts

Deposits:

The County Clerk's deposits, as of April 10, 2007, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$141,544

The County Clerk's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the County Clerk's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Barty Bullock, Pulaski County Judge/Executive
The Honorable Ralph Troxtell, Pulaski County Clerk
Members of the Pulaski County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Pulaski County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2008 on our consideration of the Pulaski County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Barty Bullock, Pulaski County Judge/Executive
The Honorable Ralph Troxtell, Pulaski County Clerk
Members of the Pulaski County Fiscal Court
(Continued)

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties
- The County Clerk's Office Lacks Adequate Physical Controls Over Cash Receipts

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Pulaski County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 28, 2008

PULASKI COUNTY
RALPH TROXTELL, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

State Fees For Services	\$ 6,929
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Fiscal Court	20,023
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$ 2,503,632
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Usage Tax	7,854,092
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Tangible Personal Property Tax	4,290,916
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Other-

Fish and Game Licenses	8,613
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Marriage Licenses	19,348
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Occupational Licenses	1,706
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Election Commission	21,208
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Deed Transfer Tax	239,214
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Delinquent Tax	<u>709,377</u>	15,648,106
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	87,530
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Real Estate Mortgages	167,624
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Chattel Mortgages and Financing Statements	186,089
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Powers of Attorney	10,790
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All Other Recordings	111,899
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Charges for Other Services-

Copywork	38,094
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Postage	<u>10,874</u>	612,900
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Other:

Other Income	8,220
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Refunds	24,248
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Notary Bill of Sale	16,141
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Miscellaneous	<u>5,516</u>	54,125
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Interest Earned	<u>27,293</u>
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Total Revenues	16,369,376
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The accompanying notes are an integral part of this financial statement.

PULASKI COUNTY
 RALPH TROXTELL, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES AND EXCESS FEES - REGULATORY BASIS
 December 31, 2007
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 1,657,861

Usage Tax 7,618,013

Tangible Personal Property Tax 1,699,487

Licenses, Taxes, and Fees-

Fish and Game Licenses 8,301

Delinquent Tax 112,138

Legal Process Tax 72,489

Affordable Housing Trust 97,026 \$ 11,265,315

Payments to Fiscal Court:

Tangible Personal Property Tax 275,962

Delinquent Tax 42,434

Deed Transfer Tax 227,256

Occupational Licenses 999 546,651

Payments to Other Districts:

Tangible Personal Property Tax 2,147,419

Delinquent Tax 357,801 2,505,220

Payments to Sheriff 8,440

Payments to County Attorney 102,193

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 719,879

Part-Time Salaries 125 720,004

Contracted Services-

Advertising 492

Printing and Binding 12,996 13,488

Materials and Supplies-

Office Supplies 56,622

The accompanying notes are an integral part of this financial statement.

PULASKI COUNTY
 RALPH TROXTELL, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES AND EXCESS FEES - REGULATORY BASIS
 December 31, 2007
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-			
Conventions and Travel	\$	3,252	
Dues		5,694	
Postage		18,673	
Refunds		24,248	
Phone Expenses		26,926	
Uncollected Returned Checks		2,486	
Miscellaneous		5,613	
Maintenance and Repairs		<u>59,832</u>	\$ 146,724
Capital Outlay-			
Office Equipment			21,494
Debt Service:			
Interest		3,529	
Lease Purchases		<u>6,522</u>	10,051
Total Expenditures			<u>\$ 15,396,202</u>
Net Revenues			973,174
Less: Statutory Maximum			<u>76,197</u>
Excess Fees			896,977
Less: Expense Allowance		3,600	
Training Incentive Benefit		<u>847</u>	<u>4,447</u>
Excess Fees Due County for 2007			892,530
Payment to Fiscal Court - February 26, 2008			<u>891,530</u>
Excess Fees			1,000
Amount Held For Cash Drawers			<u>1,000</u>
Balance Due Fiscal Court at Completion of Audit			<u>\$ 0</u>

The accompanying notes are an integral part of this financial statement.

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Pulaski County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Pulaski County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of April 10, 2007, \$141,544 of public funds were exposed to custodial credit risk because the bank did not adequately collateralize the County Clerk's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$141,544

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 4. Leases

The County Clerk's office was committed to the following lease agreements as of December 31, 2007:

<u>Item Leased</u>	<u>Monthly Payment</u>	<u>Term Of Agreement</u>	<u>Ending Date</u>	<u>Principal Balance December 31, 2007</u>
Mall Office	\$ 750	5 Years	October 2012	\$ 42,750
Postage System	\$ 1,068	5 Years	June 2009	\$ 2,136

The accompanying notes are an integral part of this financial statement.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Barty Bullock, Pulaski County Judge/Executive
The Honorable Ralph Troxtell, Pulaski County Clerk
Members of the Pulaski County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Pulaski County Clerk for the year ended December 31, 2007, and have issued our report thereon dated March 28, 2008. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pulaski County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pulaski County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The County Clerk's Office Lacks Adequate Segregation Of Duties
- The County Clerk's Office Lacks Adequate Physical Controls Over Cash Receipts



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Pulaski County Clerk's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Pulaski County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Pulaski Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 28, 2008

COMMENTS AND RECOMMENDATIONS

PULASKI COUNTY
RALPH TROXTELL, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2007

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

The County Clerk's Office Lacks Adequate Segregation Of Duties

Our review of the County Clerk's internal controls over receipts and disbursements revealed the following control deficiencies. The control deficiencies noted constitute a significant deficiency and material weakness in the internal control structure of the County Clerk's office.

- Two employees rotate the daily checkout procedures, however, the same employee prepares the daily checkout sheet and daily deposit and posts to the receipts ledger. The same employee also handles post-dated and NSF checks.
- The Bookkeeper performs several accounts payable functions that include preparing and signing disbursements and posting to the disbursements ledger. The Bookkeeper is also responsible for preparing monthly bank reconciliations.
- The County Clerk does not review monthly bank reconciliations.
- The Bookkeeper prepares and signs disbursements and is also in charge of purchasing and receiving supplies.
- The Bookkeeper prepares monthly bank reconciliations, including a comparison of daily, monthly, and quarterly reports to the receipts and disbursements ledgers.

Adequate segregation of duties would prevent the same person from having a significant role in processing, recording and reporting receipts and disbursements. Compensating controls limit the severity of a control deficiency, however, they do not eliminate the control deficiency. The County Clerk could mitigate the lack of segregation of duties over receipts and disbursements by implementing the following compensating controls:

- The County Clerk should periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Differences should be reconciled. The County Clerk should document his review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.
- The County Clerk should periodically compare the bank reconciliation to the balance in the checkbook. Differences should be reconciled. The County Clerk should document his review by initialing and dating the bank reconciliation and the balance in the checkbook.
- The County Clerk should require dual signatures on all checks, with one required signature being the County Clerk's.
- The County Clerk should compare the quarterly financial report to the receipts and disbursements ledgers for accuracy. Differences should be reconciled. The County Clerk should document his review by initialing and dating the quarterly report.

County Clerk's Response: Employees being trained for multiple duties.

PULASKI COUNTY
RALPH TROXTELL, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2007
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

(Continued)

The County Clerk's Office Lacks Adequate Physical Controls Over Cash Receipts

During our review of internal controls over cash receipts, it was noted that cash receipts received in the mail are not handled immediately. The County Clerk opens the mail and labels the envelopes as to department. The mail remains on the County Clerk's desk until there are available employees to process the transactions. It was noted that a restrictive endorsement is not placed on incoming checks as soon as they are received. Also, all cash received from customers is not placed in a locked cash drawer immediately. Once a deputy clerk processes a transaction, it is taken to the back of the office and placed in a bin. At various times during the day, one deputy clerk from the bookkeeping department removes the cash/receipts from the bin and posts them to the receipts ledger then places the cash in the cash drawer. The cash drawer is not locked and remains open throughout the day. We recommend that the County Clerk strengthen physical controls over cash receipts from time of receipt until deposit.

County Clerk's Response: POS system being purchased.

